

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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June 9, 2009

**Michelle Scray, Chief Probation Officer**  
Probation Department  
175 W. 5<sup>th</sup> Street  
San Bernardino, CA 92415

## **SUBJECT: PROBATION CASH CONTROLS AUDIT**

### **Introductory Remarks**

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Probation Department (PRB). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

### **Background**

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

### **Objectives, Scope and Methodology**

Our overall objective was to determine whether cash handling controls practiced by the department effectively safeguard its cash.

We reviewed internal controls over cash for the period of April 1, 2008 through June 30, 2008. Our audit included surprise cash counts, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

### **Conclusion**

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash. We determined that the department did not appear to properly maintain and secure its petty cash funds.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on May 12, 2009 and discussed our observations with management on May 27, 2009. The department's responses to our recommendations are included in this report.

### **Findings and Recommendations (by site)**

#### **Probation Administration Office**

##### **Finding: Management of the Petty Cash Funds needs to be improved**

The County's Internal Controls and Cash Manual (1/08), Chapter 2 – Internal Controls, states all transactions and pertinent events should be accurately and properly recorded on documents and records. Chapter 4 – Cash Funds, states cash funds must be replenished prior to the end of each fiscal year to ensure expenditures are recorded in the year in which they were incurred. Chapter 4 further states that at the end of a fund reconciliation process the reconciled amount should equal the fund total.

The following conditions were disclosed during our review:

- The petty cash fund did not have a detailed record of all transactions that occurred, including a current fund balance.
- The petty cash (checking) fund had outstanding advances dating back to 2003.
- The petty cash (checking) fund was not reconciled to the authorized fund amount.
- The exact amount the fund contained was undetermined due to incomplete records of the advances given.

The department has a high risk of cash being misappropriated by not practicing the required guidelines for cash fund management as stated in the Internal Controls and Cash Manual.

##### **Recommendation:**

We recommend that management implement procedures to have a register for every cash fund and reconcile bank and book balances of the checking account to the authorized amount. If a shortage is discovered, the department should follow the steps listed in

Chapter 5 of the ICCM. In addition, management should ensure cash funds are replenished prior to the end of the fiscal year.

**Management's Response:**

The Cash Count Audit was performed on July 29 and 30, 2008 - approximately 10 months ago. The department is requesting that the process for audit report development and distribution be revised for completion in a reasonably timely manner to allow findings and recommendations to be applied as soon as possible.

The Department concurs with both the finding and recommendation, and is applying the recommendations for each finding as detailed below:

- The Department has implemented a register to manage detailed transaction requirements.
- The outstanding advances were for birth certificates from other public agencies and those records are being reviewed to finalize the outstanding advances.
- The reconciliation to the authorized fund balance is being reviewed due to a switch of internal accounting systems in 2003, and appropriate action will be taken to reconcile this account to the authorized fund balance. This action will also resolve the fourth issue listed above.

**Auditor's Response:**

Issuance of audit reports can vary due to a multitude of reasons, therefore our normal procedure is to verbally communicate or in writing via email to the department all audit findings in order to allow them to implement the recommendation immediately prior to issuance of the audit report. Unfortunately, the findings and recommendations for this audit were not communicated to the department per our normal procedure upon completion of fieldwork.

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Central Juvenile Hall**

**Finding 1: Management of Petty Cash Funds needs to be improved**

The County's Internal Controls and Cash Manual, Chapter 2 – Internal Controls, states all transactions and pertinent events should be accurately and properly recorded on documents and records. Chapter 3 – Cash Controls, states safe combinations should be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually. Chapter 4 – Cash Funds, states cash funds should be reconciled at least once a month by someone other than the fund custodian and of a higher ranking job code. Chapter 4 further states cash funds must be replenished prior to the end of each fiscal year to ensure expenditures are recorded in the year in which they were incurred.

The following conditions were disclosed during our review:

- The petty cash funds did not have a detailed record of all transactions that occurred, including a current fund balance.
- The safe combination had not been changed in over two years.
- Reconciliations on the petty cash funds were not performed at all.
- One cash fund contained a receipt dated 8/26/05. Another cash fund included four advances given in 2006 and 2007 which remained outstanding.

The department is not practicing the required guidelines for cash fund management as stated in the Internal Controls and Cash Manual. By failing to change safe combinations, the department is at risk of an unauthorized individual acquiring knowledge of the combination which can result in cash losses. In addition, not performing monthly reconciliations can result in errors, omissions, and fraudulent activity not being discovered in a timely manner, or not being discovered at all.

**Recommendation:**

We recommend that management implement procedures to have a register for every cash fund. We recommend that management ensure safe combinations are changed at least annually and cash funds are reconciled on a monthly basis by someone other than the fund custodian. In addition, management should ensure cash funds are replenished prior to the end of the fiscal year.

**Management's Response:**

The Department concurs with both the finding and the recommendation in the following manners:

- A register has been started for each location and fund.
- The combinations at all locations will be changed at the beginning of every fiscal year.
- A procedure is being developed that will indicate the position that will be responsible for approving monthly reconciliations at each facility.
- Outstanding advances are being reviewed for reconciliation.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Finding 2: Petty Cash Funds were not kept segregated**

The County's Internal Controls and Cash Manual, Chapter 2 – Internal Controls, states cash funds are to be kept physically separate from all other cash funds. A surprise cash count revealed a shortage in the amount of \$19 in one fund and an overage in the amount of \$20 in another fund. The fund custodian stated the shortage and overage resulted from "mixing up the accounts." Since petty cash funds are not kept segregated, there is a higher risk of monies being lost or misappropriated.

**Recommendation:**

We recommend that management ensure cash funds be kept segregated from all other department funds.

**Management's Response:**

The Department concurs with both the finding and recommendation and all department funds will be kept separate.

**Auditor's Response:**

The Department's response addresses planned actions to correct deficiencies noted in the finding.

**West Valley Juvenile Hall**

**Finding: Management of Petty Cash Funds needs to be improved**

The County's Internal Controls and Cash Manual, Chapter 3 – Cash Controls, states safe combinations should be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually. Chapter 4 – Cash Funds, states cash funds should be reconciled at least once a month by someone other than the fund custodian and of a higher ranking job code.

The following conditions were disclosed during our review:

- The safe combination had not been changed in over a year.
- Reconciliations on the petty cash funds were not performed at all.

The department is not practicing the required guidelines for cash fund management as stated in the Internal Controls and Cash Manual. By failing to change safe combinations, the department is at risk of an unauthorized individual acquiring knowledge of the combination which can result in cash losses. In addition, not performing monthly reconciliations can result in errors, omissions, and fraudulent activity not being discovered in a timely manner, or not being discovered at all.

**Recommendation:**

We recommend that management ensure safe combinations are changed at least annually and cash funds are reconciled on a monthly basis by someone other than the fund custodian.

**Management's Response:**

The Department concurs with both the finding and recommendation and will implement the following actions:

- The combinations at all locations will be changed at the beginning of every fiscal year.
- A procedure is being developed that will indicate the position that will be responsible for approving monthly reconciliations at each facility.

**Auditor's Response:**

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_  
Howard Ochi, CPA  
Chief Deputy Auditor  
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